Performance Reporting in Federal Management Reform

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Performance Reporting in Federal Management Reform

I. Introduction and Summary

As public attention has increasingly focused on improving the performance and accountability of Federal programs, bipartisan efforts in Congress and the White House have produced new legislative mandates for management reform. These laws and the associated Administration and Congressional policies call for a multifaceted approach—including the provision of better financial and performance information for managers, Congress, and the public and the adoption of integrated processes for planning, management, and assessment of results.

Recent laws include specific new requirements for performance reporting:

- **The Chief Financial Officers Act of 1990 (CFO Act)** establishes Chief Financial Officers in major Federal agencies and includes among their responsibilities provision for systematic measurement of performance.

- Performance reporting in **the Government Performance and Results Act of 1993 (GPRA)** is part of a larger system to be adopted by each Federal agency in order to integrate planning, budgeting, management, and performance assessment.

- **The Government Management Reform Act of 1994 (GMRA)** calls for agency financial statements that reflect the results of agency operations and, beginning with FY 1997, a government-wide financial statement that includes results of government-wide operations.

- **The Federal Financial Management Improvement Act of 1996 (FFMIA)** is intended to increase the capability of agencies to monitor the execution of their budgets by providing better support for the preparation of reports that compare spending of resources to results of activities.

- **The Information Technology Management Reform Act of 1996 (ITMRA)** is intended to improve the ways that agencies acquire, use, and dispose of information technology (IT) and, thereby, to improve the productivity, efficiency, and effectiveness of Federal programs. The Act requires consideration of IT goals in strategic planning and IT contributions to agency goals and performance.

GMRA authorized the Office of Management and Budget (OMB) to simplify and consolidate agency reporting requirements. To this end, OMB and the agencies are in the process of developing Accountability Reports that will streamline reporting by providing critical financial and program performance information in a single report.

OMB is working with staff from the Federal agencies, the National Performance Review, Congress, the General Accounting Office, and other relevant organizations in the public and private sectors to implement the new mandates.

Statements of concepts and principles from the Federal Accounting Standards Advisory Board (FASAB) and guidance from OMB emphasize the importance of measuring the results of government operations. All agree that it would be exceedingly convenient if a few comprehensive measures for each major Federal program could provide a complete and accurate charting of the program's results year after year. But reference is also occasionally made to the limitations of performance measurement and the need to supplement measures with other kinds of information in order to provide a complete and balanced picture.

Agencies and OMB are now in the process of determining the best balance between what can be measured and what cannot be measured and forging the most informative way to report results. Meanwhile, auditors are concerned about how the proposed approaches to performance assessment can be audited. Agency staff and stakeholders need to be included in the developmental process. But few staff or stakeholders know the arcane details of performance reporting in the new management mandates.

The remaining sections of this paper present a brief overview of the CFO Act, GPRA, GMRA, FFMIA, ITMRA, and associated FASAB statements and OMB guidance--with special reference to performance reporting. The paper does not present operational, or policy, recommendations. Its purpose is to offer a "pick-and-choose" compilation of what's in the five acts and associated FASAB and OMB materials. Extensive detail is supplied because the five acts and associated FASAB statements and OMB guidance draw on a large, complex set of standards which cannot be meaningfully condensed into just a few pages and which represent a new kind of "culture" for many outside the accounting community.

Following the main text of the paper are a list of references and a series of appendices. Appendix A lists key dates for performance and financial reporting. Appendices B through F present more detail about each of the five acts. Appendix G lists FASAB statements issued to date. Appendices H through J summarize major elements of performance reporting contained in FASAB statements. Finally, Appendix K summarizes OMB guidance for performance reporting in the context of agency financial statements.

II. The Chief Financial Officers Act of 1990

The purposes of the CFO Act are to (1) bring more effective general and financial management practices to the Federal government, (2) improve agency systems of accounting, financial management, and internal controls, and (3) provide for the production of complete, reliable, timely, and consistent financial information for use in the financing, management, and evaluation of Federal programs.

The CFO Act establishes (1) a Deputy Director for Management in the Office of Management and Budget (OMB) to be the chief Federal official responsible for financial management,[1] (2) an Office of Federal Financial Management, in OMB, headed by a Comptroller who is the deputy and principal advisor to the OMB Director for Management in carrying out his/her responsibilities under the CFO Act,[2] and (3) a Chief Financial Officer (CFO) and Deputy CFO in each executive department and in each major executive agency in the Federal government.

The responsibilities of the CFOs include maintenance of an integrated agency accounting and financial management system that provides for (1) complete, reliable, consistent, and timely information which is prepared on a uniform basis and which is responsive to the financial information needs of agency management; (2) the development and reporting of cost information; (3) the integration of accounting and budgeting information; and (4) **the systematic measurement of performance**. The Act does not elaborate on the meaning of systematic measurement of performance.

The Act requires major Federal departments to prepare annual financial statements that are prepared according to OMB guidance and **audited** by the agency's Inspector General.

III. The Government Performance and Results Act of 1993

The purposes of GPRA include: (1) improved planning and management of Federal programs, (2) increased accountability and better assessment of results,
(3) improved communication with Congress and the public,
(4) better information for Congressional and agency decisions, and
(5) increased public confidence in the government.

The Act introduces a new set of reporting requirements into the budget process for each agency. The requirements center on: (1) a strategic plan that provides long-run strategic goals covering 5 or more years (and up-dated at least every 3 years), (2) an annual performance plan that derives specific short-run performance goals from the long-run general goals in the strategic plan, and (3)

[1] The current OMB Deputy Director for Management is John A. Koskinen.
[2] The current Comptroller is G. Edward DeSeve.

an **annual performance report that examines whether goals were met and what was accomplished with the resources expended**.

In order to focus attention on managing for results, GPRA and the OMB guidance for its implementation are quite specific about the concepts which should anchor planning and assessment. Performance assessments should report (1) **outputs** which are the immediately observable products of program activity (e.g., not teaching, but graduates), and (2) **outcomes** which are the longer-term results for which a program is designed (e.g., not graduates, but graduates who obtain jobs).

There is a clear preference in GPRA for the use of **measures** in the specification of goals and the assessment of outputs and outcomes. However, GPRA provides that, if an agency, in consultation with the Director of OMB, determines that it is not feasible to express performance goals for a particular program in an objective, quantifiable, measurable form, the Director of OMB may authorize an **alternative form**. GPRA stipulates that the alternative form should include separate descriptive statements of a minimally effective program and a successful program with sufficient precision to allow for an accurate, independent determination of whether or not the agency's actual performance meets the criteria for a minimally effective program or a successful program. Agencies may also propose other alternative forms, or state why it is infeasible or impractical to express a performance goal in any form.

Agency strategic plans are due Congress for the first time on September 30, 1997. Annual performance plans must accompany annual budget requests, starting with the FY 1999 budget--due OMB September 1997, and due Congress February 1998. The first annual performance report will be for FY 1999—due Congress March 31, 2000.

IV. The Government Management Reform Act of 1994

The purposes of GMRA are to provide a more effective, efficient, and responsive government through a series of management reforms primarily for Federal human resources and financial management.

The Act requires for FY 1996 and each year after, that all major Federal departments and agencies prepare a financial statement covering all accounts and associated activities of each office, bureau, and activity of the agency. The statement should conform to OMB guidance, and it should be **audited** by the agency Inspector General. The statement should reflect
(1) the overall financial position of the offices, bureaus, and activities covered by the statement, including assets and liabilities thereof; and
(2) **results of operations** of those offices, bureaus, and activities.

GMRA authorizes OMB to consolidate and simplify the financial management reports that agencies are required to prepare and to adjust the frequency and due dates of the reports (after appropriate consultation with, and notification of, Congress).

The Act requires a **government-wide financial statement**, for FY 1997 and each year after, prepared by the Secretary of the Treasury in coordination with the Director of OMB, **audited** by the US Comptroller General, and reflecting the overall financial position of the US government, including assets and liabilities and **results of operations**.

V. The Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 (FFMIA) addresses Congressional concerns that, although progress has been made in strengthening Federal internal accounting controls, Federal accounting standards have not been uniformly implemented and certain deficiencies persist.

FFMIA notes that incorporation of FASAB concepts and standards into Federal financial management systems should enable agencies to produce cost and financial information that will assist the Congress and financial managers to **evaluate the cost and performance of Federal programs and activities** and thus facilitate improved decision making.

Building on and complementing the CFO Act, GPRA, and GMRA, the Act provides for the establishment of uniform accounting systems, accounting standards, and accounting reporting systems in the Federal government and for related purposes. It is intended to increase the capability of agencies to monitor the execution of their budgets by providing better support for the preparation of reports that **compare spending of resources to results of activities**.

The Director of OMB is required to submit a report to Congress by March 31 of each year about the implementation of the Act, and agency Inspectors General and the Comptroller General of the United States are required to report to Congress about compliance matters.

VI. The Information Technology Management Reform Act of 1996

The Information Technology Management Reform Act of 1996 (ITMRA) is intended to improve the ways that agencies acquire, use, and dispose of information technology (IT) and, thereby, to improve the productivity, efficiency, and effectiveness of Federal programs.

Fundamental is the streamlining of the IT procurement process, including elimination of the centralized authority of the General Services Administration and transfer of acquisition authority to the agencies themselves.

Also significant are requirements for integration of IT planning with overall agency strategic planning, budgeting, and performance assessment and for better information for monitoring the progress of IT investments and evaluating their results.

The Act assigns new responsibilities to the Director of OMB and to the heads of executive agencies, and it creates the new position of Chief Information Officer (CIO) in each executive agency.

The responsibilities of the OMB Director include (1) developing, as part of the overall budget process, a process for analyzing, tracking, and evaluating the risks and **results** of all major capital investments made by each executive agency in information systems; and (2) submitting to Congress, along with the President's budget, a report on the **net program performance benefits** from major capital investments in information systems in executive agencies and **how the benefits of these investments relate to the accomplishment of agency goals**.

The responsibilities of the agency head include (1) establishing goals for improving the **efficiency and effectiveness of agency operations** and, as appropriate, the delivery of services to the public through the effective use of IT; (2) preparing an annual report, to be included in the agency's annual budget submission to Congress, on **progress** in achieving those goals; and (3) ensuring that **performance measurements** are prescribed for assessing IT that is in use or will be acquired for use in the agency.

The responsibilities of the agency CIO include (1) monitoring the performance of the agency's IT programs, **evaluating the performance of IT programs on the basis of applicable performance measurements**, and advising the agency head about whether to continue, modify, or terminate a program or project; and (2) annually, as part of the agency's strategic planning and performance evaluation processes, assessing the extent to which the positions and personnel at the executive and management levels of the agency meet the requirements for achieving agency **performance goals** for information resources management.

Further, ITMRA requires the head of each executive agency, in consultation with the agency's CIO and CFO, to establish policies and procedures that will ensure that (1) the accounting, financial, and asset management systems and other information systems of the agency are designed, developed, maintained, and used effectively to provide financial or **program performance data** for financial statements; (2) the financial and related **program performance data** are provided on a reliable, consistent, and timely basis to agency financial management systems; and (3) the agency financial statements support:

> (a) **assessments** and revisions of mission-related processes and administrative processes of the agency; and
>
> (b) **performance measurement** for agency investments in information systems.

As part of his July 16, 1996, Executive Order on Federal Information Technology, President Clinton established a Chief Information Officers Council which serves as the principal forum for executive agency CIOs to discuss and recommend strategic directions for the Federal information infrastructure. The Council is chaired by the OMB Deputy Director for Management.[3]

VII. FASAB Statements

FASAB[4] statements provide accounting concepts and principles for preparing financial reports that will help assess Federal programs'
(1) budgetary integrity, (2) operating performance, (3) stewardship for the future, and (4) systems and control for safeguarding Federal assets.

With respect to **operating performance**, FASAB statements call for information about (1) the costs of providing specific programs and activities and the composition of, and changes in, these costs; (2) the efforts and accomplishments associated with federal programs, their relationships to costs, and changes over time; and (3) the efficiency and effectiveness of the government's management of its assets and liabilities.

FASAB statements consider **performance measurement** to be essential in financial reporting and discuss at length measures of **outputs**, **outcomes**,

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[3] The current incumbent is John A. Koskinen.

[4] In October 1990, the Director of OMB, the Secretary of the Treasury, and the Comptroller General of the US created the Federal Accounting Standards Advisory Board (FASAB) to consider and recommend accounting standards for the Federal government. The nine-member board has one member from OMB, one from Treasury, one from GAO, one from the Congressional Budget Office, one from the Department of Defense, one from a civilian agency (currently Energy), and three from the private-sector.

impacts, **efficiency** (i.e., resources used per unit of output), and **effectiveness** (i.e., relationship of cost to outcome).

FASAB statements also note the **limitations of performance measures**. For example, Statement of Federal Financial Accounting Concepts (SFFAC) No. 1 says that performance usually cannot be fully described by a single measure; indicators of service efforts and accomplishments do not, by themselves, indicate why performance is at the level reported; and reporting quantifiable indicators can sometimes have unintended consequences. For these and other reasons, performance measures generally need to be accompanied by suitable explanatory information--both quantitative and narrative--to help readers of financial reports understand the measures, assess the reporting entity's performance, and evaluate the significance of underlying factors that may have affected reported performance. (SFFAC, paragraphs 211-212)

FASAB statements also provide concepts and principles for reporting on **stewardship** for the future, including investments in **human capital** and **research and development** (R&D). Inclusion of these programs in the stewardship investment category is dependent on demonstrating over time that their outputs and outcomes increase or maintain national economic productive capacity or yield other future benefits.

FASAB Statement of Federal Financial Accounting Standards (SFFAS) No. 8 discusses **stewardship reporting** and defines **output** as a tabulation, calculation, or recording of activity or effort that can be expressed in a quantitative or qualitative manner.[5] Measures of outputs should have two key characteristics: (1) they should be systematically or periodically captured through an accounting or management information system, and (2) there should be a logical connection between the reported measures and the program's purpose.

SFFAS No. 8 defines **outcome** as an assessment of the results of a program compared to its intended purpose. Outcomes for stewardship investments in **human capital** should: (1) be capable of being described in financial, economic, or quantitative terms and (2) provide a plausible basis for concluding that the program has had or will have its intended effect.

SFFAS No. 8 says that, because of the **difficulty of measuring the results of an R&D program** in comparison to its intended purpose in financial, economic, or quantitative terms, **outcome data for R&D programs** are expected to consist typically of a narrative discussion of the major results achieved by the program during the year, along the following lines:

[5] SFFAS No. 8 will apply to agency financial statements for fiscal years beginning after September 30, 1997.

(1) For basic research, there should be an identification of any major new discoveries that were made during the year.

(2) For applied research, there should be an identification of any major new applications that were developed during the year.

(3) For development, there should be a description of the progress of major developmental projects, including the results with respect to projects completed or otherwise terminated during the year and the status of projects that will continue.

The information presented for **R&D outcomes** should provide a concise plausible basis for judging the extent to which the program is achieving its purpose. (SFFAS No. 8, Chapters 7-8).

VIII. OMB Guidance

In consultation with the CFO Council, the President's Council on Integrity and Efficiency, and other interested parties, OMB specifies the formats and instructions for agency financial statements.

OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*,[6] says that an organization's Annual Financial Statement should be composed of

(1) A brief narrative overview of the reporting entity that provides a clear and concise description of the reporting entity and its mission, activities, performance goals, **program results**, financial results, financial condition, and limitations of the principal financial statements that follow in the next section.

(2) Principal financial statements, including a balance sheet, statement of net costs, statement of changes in net position, statement of budgetary resources, statement of financing, statement of custodial activity, and related notes.

(3) Required supplemental stewardship information

(4) Required supplemental information.

(5) Other accompanying information judged by management to help provide a better understanding of the entity's programs and the extent to which they are achieving their intended objectives.

[6] OMB Bulletin 97-01will apply in part to agency financial statements for FY 1996 and FY 1997, and it will apply in full to statements for FY 1998.

The Annual Financial Statement should include objective, relevant measures of results that disclose the extent to which the agency's programs are achieving their intended objectives. Bulletin 97-01 explicitly discusses measurement of **outputs**, **outcomes**, **efficiency**, and **effectiveness**.

The presentation of **measures** in the Annual Financial Statement should include both positive and negative results; present historical and future trends, if possible; be illustrated with charts and graphs, whenever possible, for easy identification of trends; explain the significance of the trends; provide comparison of actual results to goals or benchmarks; show variations from goals and plans; and provide other explanatory information that would help readers understand the significance of the measures, the results, and any variations from goals or plans.

With respect to **stewardship investments in human capital and R&D**, continued inclusion in the stewardship investment category is dependent on demonstrating over time that program outputs and outcomes increase or maintain national economic productive capacity or yield other future benefits.

Although Bulletin 97-01 incorporates previously published FASAB statements and mirrors the FASAB discussion of useful measures, there is no explicit statement in 97-01 of the limitations of performance measures.

Bulletin 97-01 notes that the statement of goals and performance measures in the Annual Financial Statement should be consistent with the strategic plans, performance plans, and performance reports prepared for budget or GPRA documents of the agency; and the performance measures should be linked to the programs featured in the agency's "Statement of Net Cost."

IX. Consolidation of Reporting Requirements

The CFO Council has proposed two annual reports in order to consolidate reporting requirements (as called for by GMRA). A Planning and Budgeting Report would lay out an agency's road map for its future actions, linking resources requested to future plans. An Accountability Report would examine how well an agency has performed in relationship to its previously stated goals and objectives.

Under the direction of OMB, and in cooperation with the CFO Council, six agencies[7] are producing Accountability Reports on a pilot basis. These reports will streamline reporting by providing **critical financial and program performance information in a single report**. The financial statements prepared in accordance with Bulletin 97-01 and the **audits** of the statements by

[7] The six agencies are the General Services Administration, National Aeronautics and Space Administration, Nuclear Regulatory Commission, Social Security Administration, Treasury, and Veterans Administration.

agency Inspectors General will be major components of these Accountability Reports. It is expected that eventually all major Federal agencies will prepare Accountability Reports.

X. Concluding Comment

Agencies, OMB, and other interested parties are working together to forge approaches for assessing program results in order to meet the new reporting requirements. Meanwhile, auditors are concerned about how the proposed approaches to performance assessment can be audited. Since, for many programs, there are few pre-existing performance measures and methods that can fill the new mandates exactly, it seems likely that this will be an evolutionary process.

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Appendix A: Reporting Timeline

Agency Strategic Plan

Proposed plan to OMB by 8/16/97

Final to OMB and Congress by 9/30/97

Agency Annual Performance Plan

Proposed plan to OMB 9/97, with FY 99 budget proposal

Final to Congress 2/98, with FY 99 budget

Agency Annual Performance Report

Proposed output and outcome measures to OMB 9/97,
with FY 99 budget proposal

FY 99 Performance Report to Congress by 3/31/00

Agency Annual Financial Statement,
<u>Audited</u> by Agency Inspector General

Due 3/1 each year for the prior fiscal year

Government-Wide Performance Plan

To Congress with the President's Budget, starting 2/98

Government-Wide Financial Statement
(Includes Results of Government-Wide Operations),
<u>Audited</u> by the Comptroller General of the United States

Due 3/31 each year for the prior fiscal year, starting 3/31/98

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Appendix B: Key Features of the Chief Financial Officers Act of 1990

The purposes of the Chief Financial Officers Act of 1990 (CFO Act) are to

(1) Bring more effective general and financial management practices to the Federal government.

(2) Provide for improvement, in each agency of the Federal government, of systems of accounting, financial management, and internal controls to assure the issuance of reliable financial information and to deter fraud, waste, and abuse of government resources.

(3) Provide for the production of complete, reliable, timely, and consistent financial information for use by the executive branch of the government and the Congress in the financing, management, and **evaluation of Federal programs**.

The CFO Act establishes

(1) A Deputy Director for Management in OMB, who is the chief official responsible for financial management in the US government.[8]

(2) An Office of Federal Financial Management, in OMB, headed by a Comptroller who is the deputy and principal advisor to the OMB Director for Management in carrying out his/her responsibilities under the CFO Act.[9]

The many functions of the OMB Deputy Director for Management include

(1) Establishing government-wide financial management policies for executive agencies; performing all functions of the OMB Director relating to financial management; establishing general management policies for executive agencies; and coordinating and supervising the general management functions of OMB (all subject to the direction and approval of the OMB Director).

(2) Performing the functions of the OMB Director relating to managerial systems, including the systematic measurement of performance; overseeing information and statistical policy; and handling other management functions, including organizational studies, long-range planning, program evaluation, productivity improvement, and experimentation and demonstration programs.

[8] The current OMB Deputy Director for Management is John A. Koskinen.
[9] The current Comptroller is G. Edward DeSeve.

The Act establishes a Chief Financial Officer (CFO) and Deputy Chief Financial Officer in each executive department and in each major executive agency in the Federal government. The several responsibilities of the CFOs in the agencies include maintenance of an integrated agency accounting and financial management system that provides for (1) complete, reliable, consistent, and timely information which is prepared on a uniform basis and which is responsive to the financial information needs of agency management; (2) the development and reporting of cost information; (3) the integration of accounting and budgeting information; and (4) the **systematic measurement of performance**. The Act does not elaborate on the meaning of systematic measurement of performance.

The Act establishes a Chief Financial Officers Council, consisting of (a) the OMB Deputy Director for Management who acts as chairperson of the council; (b) the Controller of the Office of Federal Financial Management of OMB; (c) the Fiscal Assistant Secretary of Treasury; and (d) each of the agency CFOs. The Chief Financial Officers Council is to meet periodically to advise and coordinate the activities of the agencies of its members on such matters as consolidation and modernization of financial systems, improved quality of financial information, financial data and information standards, internal controls, legislation affecting financial operations and organizations, and any other financial management matter.

The Act requires major Federal departments to prepare annual financial statements. An agency's statement must be **audited** by the agency 's Inspector General. The OMB Director is to prescribe the form and content of the financial statements, consistent with applicable accounting principles, standards, and requirements.

Appendix C: Key Features of the Government Performance and Results Act of 1993

The purposes of the Government Performance and Results Act of 1993 (GPRA) are to:

> (1) Improve the confidence of the American people in the capability of the Federal government, by systematically holding Federal agencies accountable for achieving program results.
>
> (2) Initiate program performance reform with a series of pilot projects in setting program goals, **measuring program performance against those goals, and reporting publicly on their progress**.
>
> (3) Improve Federal program effectiveness and public accountability by promoting a new **focus on results**, service quality, and customer satisfaction.
>
> (4) Help Federal managers improve service delivery, by requiring that they plan for meeting program objectives and by providing them with information about **program results** and service quality.
>
> (5) Improve congressional decision making by providing more objective information on achieving statutory objectives, and on the relative effectiveness and efficiency of Federal programs and spending.
>
> (6) Improve internal management of the Federal government.

The law mandates new reporting requirements for Federal agencies as part of the budget process. These are centered on a multi-year strategic plan, annual performance plans, and annual performance reports. Guidance to agencies for the preparation of GPRA documents is provided by the Director of OMB. In order to focus attention on managing for results, GPRA and OMB guidance for GPRA implementation are quite specific about the concepts which should anchor planning and assessment.

Multi-Year Strategic Plan

A multi-year strategic plan states the fundamental mission (or missions) of an organization, its long-term general goals for implementing that mission, and the resources required to meet those goals. General goals need not be in a quantitative or measurable form, but they must be expressed in a manner that allows a future assessment of whether a goal is being achieved.

Annual Performance Plan

Annual performance plans link agency operations to long-term goals. They should include performance goals for the agency's program activities, a summary of the resources necessary to reach those goals, performance indicators that will be used to measure performance in the future, and identification of how the measured values will be verified.

Annual Performance Report

Annual program performance reports provide feedback to managers, policy makers, and the public as to what was actually accomplished for the resources that have been expended. Since GPRA seeks compact reporting at the agency level, the overall agency performance report probably will not include all the information available in the agency. But the information in the overall performance report should be linked to the information used for management purposes, and both should address the goals of the previous performance plan.

The performance report should include explanatory information on goals not met; this might include plans for achieving the goals in the future or reasons why they cannot be met. In addition, the performance report should relate performance information to program evaluation findings in order to give a clear picture of the agency's performance and its efforts at improvement.

Performance Goals

A performance goal is a target level of performance expressed as a **tangible, measurable, objective**, against which actual achievement can be compared, including a goal expressed as a quantitative standard, value, or rate.

The framers of GPRA recognized that in rare instances it may not be feasible to measure the results of a Federal program quantitatively.[10] If an agency, in consultation with the Director of OMB determines that it is not feasible to express performance goals for a particular program in an objective, quantifiable, measurable form, the Director of OMB may authorize an **alternative form**. Even with the alternative form, GPRA seeks clear statement of a program's goals and clear standards for identifying progress in meeting the goals.

There may be several performance goals for any general goal in a strategic plan.

Performance Indicators

For most performance goals, a number of performance indicators should be developed--preferably a range of related performance indicators (such as

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[10] Basic research is cited as an example in US Senate 1993 (page 5).

quantity, quality, timeliness, cost, and outcome) so that managers can balance priorities among competing sub-goals.

A performance indicator is a particular value or characteristic used to measure program **output** or **outcome** in relation to program goals.

Under GPRA, an **output** measure is a tabulation, calculation, or recording of activity or effort and can be expressed in a quantitative or qualitative manner. Although the text of GPRA does not specify a distinction between outputs and activities, an important purpose of the Act is to focus attention beyond effort or activity in order to assess outputs and outcomes. Thus, OMB guidance differentiates between outputs (e.g., graduates) and production activities (e.g., teaching).

An **outcome** measure is an assessment of the results of a program compared to its intended purpose.

Other Indicators

An **impact** measure is a measure of the direct or indirect effects or consequences resulting from achieving program goals. An impact assessment is the comparison of actual program outcomes with estimates of the outcomes that would have occurred in the absence of the program, for example, by comparing the outcome for a randomly selected group receiving an agency service to a randomly selected group not receiving the service. The measurement of impact is generally done through special comparison-type studies and not simply by using data regularly collected through program information systems.

Impact indicators are useful for understanding the eventual effects of government programs. OMB guidance for GPRA implementation discusses impact indicators, but GPRA itself does not.

An **input** measure is a measure of what an agency or manager has available to carry out the program or activity to achieve an output or outcome. These can include employees, funding, equipment or facilities, supplies on hand, goods or services received, and work processes or rules. Services from a resource base (e.g., staff expertise and time) are defined as inputs to a program. Increments to a resource base (e.g., newly trained personnel) are defined as outputs or outcomes. (A program output or outcome could be negative; for example, net depletion of a resource base).

Program Evaluation

A program evaluation is an assessment, through objective measurement and systematic analysis, of the manner and extent to which Federal programs achieve intended objectives. A program evaluation can also track unintended effects.

Key Dates

Agency strategic plans are due Congress for the first time on September 30, 1997. Annual performance plans must accompany annual budget requests, starting with the FY 1999 budget request--due OMB September 1997, and due Congress February 1998. The first annual performance report will be for FY 1999—due Congress March 31, 2000.

Appendix D: Key Features of the Government Management Reform Act of 1994

The purposes of the Government Management Reform Act of 1994 (GMRA) are to provide a more effective, efficient, and responsive government through a series of Federal management reforms primarily for human resources and financial management. It builds on certain earlier acts, including the CFO Act.

Title IV of GMRA may be cited as the "Federal Financial Management Act of 1994." It includes a number of sections. Section 405 specifies that, starting with FY 1996, all major Federal departments and agencies must prepare and submit to the Director of OMB an **annual financial statement** covering all accounts and associated activities of each office, bureau, and activity of the agency. The statement must be **audited** by the agency's Inspector General.[11]

Each audited financial statement should reflect--

> (1) the overall financial position of the offices, bureaus, and activities covered by the statement, including assets and liabilities thereof; and
>
> (2) **results of operations** of those offices, bureaus, and activities.

The OMB Director shall identify components of executive agencies that shall be required to have audited financial statements.

The OMB Director shall prescribe the form and content of the financial statements, consistent with applicable accounting and financial reporting principles, standards, and requirements.

The Act authorizes OMB to consolidate and simplify required financial management reports from the agencies and to adjust their frequency and due dates (after appropriate consultation with and notification of Congress).

The Act also requires a **government-wide financial statement**, starting with FY 1997 and each year thereafter.[12] The report is to be prepared by the Secretary of the Treasury in coordination with the Director of OMB. It should reflect the overall financial position, including assets and liabilities and **results** of operations of the government, and it should be prepared in accordance with form and content requirements specified by the Director of OMB. The statement should be **audited** by the Comptroller General of the United States.

[11] The FY 1996 audited financial report is due March 1, 1997.
[12] The FY 1997 report is due March 31, 1998.

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Appendix E: Key Features of the Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 (FFMIA) addresses Congressional concerns that, although progress has been made in strengthening Federal internal accounting controls, Federal accounting standards have not been uniformly implemented in financial management systems for agencies, and Federal financial management continues to be "seriously deficient."

FFMIA notes that, when the accounting concepts and standards developed by the Federal Accounting Standards Advisory Board (FASAB) are incorporated into Federal financial management systems, agencies will
(1) be able to provide cost and financial information that will assist the Congress and financial managers to **evaluate the cost and performance of Federal programs and activities**, and therefore (2) provide important information that is needed for improved decision making by the Congress and financial managers.

Building on and complementing the CFO Act, GPRA, and GMRA, the Act provides for the establishment of uniform accounting systems, accounting standards, and accounting reporting systems in the Federal government and for related purposes. It is intended to increase the capability of agencies to monitor the execution of their budgets by providing better support for the preparation of reports that **compare spending of resources to results of activities**.

The head of each agency is required to determine whether the financial management systems of the agency comply "substantially" with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. If the agency head finds that the agency's financial management systems do not comply, he/she should establish a remedial plan in consultation with the Director of OMB. If the determination of the agency head differs from the determination in audit by the Inspector General, then the Director of OMB should review the two determinations and provide a report on them to the appropriate committees of Congress.

The Director of the Office of Management and Budget (OMB) is required to submit a report to Congress by March 31 of each year about the implementation of the Act.

Agency Inspectors General are required to report to Congress about instances of noncompliance with the Act.

Starting with October 1, 1997, and on October 1 of each succeeding year, the Comptroller General of the United States is required to report to the appropriate committees of Congress concerning (1) whether the financial statements of the Federal government have been prepared in accordance with applicable accounting standards and (2) the adequacy of applicable standards.

The Act becomes effective for Fiscal Year 1997.

Appendix F: Key Features of the Information Technology Management Reform Act of 1996

The Information Technology Management Reform Act of 1996 (ITMRA) introduces a set of comprehensive measures intended to improve the ways that agencies acquire, use, and dispose of information technology (IT). Fundamental is the streamlining of the IT procurement process, including elimination of the centralized authority of the General Services Administration and transfer of acquisition authority to the agencies themselves. Also significant are requirements for integration of IT planning with overall agency strategic planning, budgeting, and performance assessment and for better information for monitoring the progress of IT investments and evaluating their results.

Better planning and management of IT is intended to improve the productivity, efficiency, and effectiveness of Federal programs (1) directly through applications of IT to improve agency operations and maintenance of information systems and (2) indirectly through support of data systems for improved planning, management, and assessment.

The Act assigns new responsibilities to the Director of the Office of Management and Budget (OMB) and to heads of executive agencies, and it creates the new position of Chief Information Officer (CIO) in each executive agency.

OMB Leadership

OMB provides guidance for agencies' implementation of ITMRA. Under the Act, the OMB Director's responsibilities include

> (1) Developing, as part of the overall budget process for each executive agency, a process for analyzing, tracking, and evaluating the risks and **results** of all major capital investments made by the agency for information systems. The process should include explicit criteria for analyzing the projected and actual **costs, benefits, and risks** associated with the investments.
>
> (2) Submitting to Congress, at the time of the President's annual budget submission, a report on the **net program performance benefits** achieved as a result of major capital investments made by the executive agencies in information systems and **how the benefits relate to the accomplishment of the goals of the agencies**.
>
> (3) Encouraging executive agencies to use **performance-based and results-based** management of information systems, and issuing clear and concise direction to agency heads for selecting, managing, and **evaluating the results** of all major investments in information systems.

Agency Heads

The Act requires the head of each executive agency to design and implement a process for maximizing the value of IT acquisitions in the agency and for assessing and managing the risks of IT investment. Among other things, the process should

(1) Provide for selection of agency IT investments, management of the investments, and **evaluation of the results** of the investments.

(2) Be integrated with the processes for making budget, financial, and program management decisions within the agency.

(3) Provide for identifying quantifiable measurements for determining the **net benefits and risks** of a proposed IT investment.

(4) Provide the means for senior agency management to obtain timely information regarding the progress of an investment in an information system. This should include a system of milestones for **measuring progress** on an independently verifiable basis, in terms of cost, capability of the system to meet specified requirements, timeliness, and quality.

Agency heads are also required to

(1) Establish goals for improving the **efficiency and effectiveness of agency operations** and, as appropriate, the delivery of services to the public through the effective use of IT.

(2) Prepare an annual report, to be included in the agency's annual budget submission to Congress, on **progress** in achieving those goals.

(3) Ensure that **performance measurements** are prescribed for assessing IT that is in use or will be acquired for use in the agency. The measures should capture how well the IT supports the agency's programs.

(4) Use information about comparable processes and organizations in the public or private sectors, if such exist, in order to develop **quantitative benchmarks for agency process performance in terms of cost, speed, productivity, and quality of outputs and outcomes**.

(5) Analyze the missions of the agency and, based on the analysis, revise the agency's mission and administrative processes, as appropriate, before making significant IT investments to support agency missions.

(6) Ensure that the information security policies, procedures, and practices of the agency are adequate.

Chief Information Officers

The responsibilities of the agency CIO are to

(1) Provide advice and assistance to the agency head and senior management for acquisition of IT and for management of information resources.

(2) Develop, maintain, and facilitate the implementation of a sound and integrated information technology architecture for the agency.

(3) Promote the effective and efficient design and operation of all major information resources management processes in the agency, including improvements to work processes.

The Act stipulates that information resources management should be the primary duty of the CIO. The CIO is required to

(1) Monitor the performance of the agency's IT programs, evaluate the performance of those programs on the basis of applicable **performance measurements**, and advise the agency head about whether to continue, modify, or terminate a program or project.

(2) Annually, as part of the agency's strategic planning and performance evaluation processes:

(a) assess the requirements established for agency personnel regarding knowledge and skill in information resources management and the adequacy of such requirements for facilitating the achievement of the **performance goals** established for information resources management;

(b) assess the extent to which the positions and personnel at the executive and management levels of the agency meet those requirements;

(c) develop strategies and specific plans for hiring, training, and professional development in order to rectify any deficiency in meeting those requirements; and

(d) report to the agency head on the progress made in improving the agency's information resources management capability.

In addition, ITMRA requires the head of each executive agency, in consultation with the agency's CIO and CFO, to establish policies and procedures that will ensure that

> (1) The accounting, financial, and asset management systems and other information systems of the agency are designed, developed, maintained, and used effectively to provide financial or **program performance data** for financial statements.
>
> (2) The financial and related **program performance data** are provided on a reliable, consistent, and timely basis to agency financial management systems.
>
> (3) The agency financial statements support:
>
> > (a) **assessments** and revisions of mission-related processes and administrative processes of the agency; and
> >
> > (b) **performance measurement** for agency investments in information systems.

Executive Order on Federal Information Technology

On July 16, 1996, President Clinton issued an Executive Order on Federal Information Technology stating the policy guidelines for implementation of ITMRA and related mandates. This Executive Order established

> (1) A Chief Information Officers Council as the principal interagency forum to improve agency practices on such matters as the design, modernization, use, sharing, and performance of agency information resources. The Council develops recommendations for overall Federal information technology management policy, procedures, and standards. As appropriate, it seeks the views of the Chief Financial Officers Council, Government Information Technology Services Board, Information Technology Resources Board, Federal Procurement Council, industry, academia, and State and local governments. The Council is composed of the CIOs and Deputy CIOs of the executive agencies, plus other relevant officials, and is chaired by the OMB Deputy Director for Management.[13] The Vice Chair is an agency CIO, elected by the Council on a rotating basis.
>
> (2) A Government Information Technology Services Board to ensure continued implementation of the information technology recommendations of the National Performance Review and to identify and promote the development of innovative technologies, standards, and practices among

[13] The current incumbent is John A. Koskinen.

agencies and State and local governments and the private sector. The Board is composed of individuals selected from agencies based on their proven expertise or accomplishments in fields necessary for the Board's work.

(3) An Information Technology Resources Board to provide independent assessments to assist in the development, acquisition, and management of selected major information systems and to provide recommendations to agency heads and OMB as appropriate. The Board is composed of individuals selected from executive branch agencies based on their knowledge of IT, Federal programs, or Federal acquisition management.

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Appendix G: List of FASAB Statements

FASAB Statement of Federal Financial Accounting Concepts No. 1, *Objectives of Federal Financial Reporting*

FASAB Statement of Federal Financial Accounting Concepts No. 2, *Entity and Display*

FASAB Statement of Federal Financial Accounting Standards No. 1, *Accounting for Selected Assets and Liabilities* (applies to agency Financial Statements for fiscal years ending on and after September 30, 1994)

FASAB Statement of Federal Financial Accounting Standards No. 2, *Accounting for Direct Loans and Loan Guarantees* (applies to agency Financial Statements for fiscal years ending on and after September 30, 1994)

FASAB Statement of Federal Financial Accounting Standards No. 3, *Accounting for Inventory and Related Property* (applies to agency Financial Statements for fiscal years ending on and after September 30, 1994)

FASAB Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Concepts and Standards* (applies to agency Financial Statements for fiscal years beginning after September 30, 1996)

FASAB Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government* (applies to agency Financial Statements for fiscal years beginning after September 30, 1996)

FASAB Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant, and Equipment* (applies to agency Financial Statements for fiscal years beginning after September 30, 1997)

FASAB Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* (applies to agency Financial Statements for fiscal years beginning after September 30, 1997)

FASAB Statement of Federal Financial Accounting Standards No. 8, *Supplementary Stewardship Reporting* (applies to agency Financial Statements for fiscal years beginning after September 30, 1997)

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Appendix H: Key Features of FASAB Statement of Federal Financial Accounting Concepts No. 1, *Objectives of Federal Financial Reporting* (September 2, 1993)

SFFAC No. 1 provides a conceptual statement of objectives for Federal financial reporting; i.e., to (1) demonstrate Federal accountability to internal and external users of Federal financial reports, (2) provide useful information to internal and external users of Federal financial reports, and (3) help internal users of financial information improve the management of Federal programs. (paragraphs 1 to 3)

Providing appropriate financial reports to program managers, executives, and members of Congress is essential to planning and conducting government functions economically, efficiently, and effectively for the benefit of society. But financial reporting is not the only source of information to support decision-making and accountability. Financial reporting cannot, by itself, ensure that the government operates as it should. Financial reporting can, however, make a useful contribution. (paragraphs 8, 9, 70)

Objectives of Federal Financial Reporting (paragraphs 11, 110)

The objectives of Federal financial reporting should be based on the needs of those who use the reports. Users of Federal financial reports (including citizens, Congress, Federal executives, and Federal program managers) want information to help them assess how well the government is doing by answering questions such as:

(1) **Budgetary integrity**: What legal authority was provided for financing government activities and for spending the monies? Were the financing and spending in accordance with these authorities? How much was left?

(2) **Operating performance**: How much do various programs cost, and how were they financed? What outputs and outcomes were achieved? What and where are the important assets, and how effectively are they managed? What liabilities arose from operating the program, and how will they be liquidated or provided for?

(3) **Stewardship**: Did the government's financial condition improve or deteriorate? What provision was made for the future?

(4) **Systems and Control**: Does the government have cost-effective systems and controls to safeguard its assets? Is it able to detect likely problems? Is it correcting deficiencies when detected?

Information Needed for Assessing Operating Performance (paragraph 14)

Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities. Federal financial reporting should provide information that helps the reader to determine

> (1) The costs of providing specific programs and activities and the composition of, and changes in, these costs.
>
> (2) The efforts and accomplishments associated with federal programs and the changes over time and in relation to costs.
>
> (3) The efficiency and effectiveness of the government's management of its assets and liabilities.

Information Needed for Assessing Stewardship (paragraph 15)

Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial conditions have changed and may change in the future. Federal financial reporting should provide information that helps the reader to determine whether

> (1) The government's financial position improved or deteriorated over the period.
>
> (2) Future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.
>
> (3) Government operations have contributed to the nation's current and future well-being.

Federal Responsibility for the Common Defense and General Welfare

The Federal government is unique in that it has continuing responsibility for the nation's common defense and general welfare. As a result, the government's financial condition is necessarily a secondary consideration in many cases. For example, the nation would enter into military conflict to protect its vital national interests despite the fact that doing so would worsen an already large deficit. (Similarly, the government's greatest resource is one that it does not own but can tax: the national economy.) (paragraph 53)

Providing for the nation's general welfare is a broad responsibility that involves multiple goals. There is no single measure of success (like "return on investment" or "earnings per share"). Goals often are not explicitly defined in quantifiable terms and sometimes conflict with each other. Relevant measures of performance are usually nonfinancial. For example, many federal loan programs are charged with two conflicting goals: (1) to operate as a fiscally prudent lender and (2) to provide high-risk lenders with credit. (paragraph 54)

Performance Measurement

Performance reporting is broader than financial reporting, but good financial reporting is essential to support performance reporting. For example, financial information on costs often must be combined with nonfinancial information on performance to provide a basis for assessing the efficiency and effectiveness of government programs. (paragraph 199)

The Government Accounting Standards Board (GASB) has identified three broad categories of measures for reporting on performance of state and local governmental entities (paragraph 199):

(1) Measures of service efforts.

(2) Measures of service accomplishments.

(3) Measures that relate efforts to accomplishments.

Although some performance measures may not be clearly assignable to one of these categories, the categories are helpful for understanding how and where financial reporting can contribute to performance reporting by providing relevant financial information. However, in the future, FASAB may wish to change or expand parts of the discussion of performance measurement in SFFAC No. 1. (paragraphs 199, 200)

Measures of Efforts

Efforts are the amount of financial and nonfinancial resources (in terms of money, material, and so forth) that are put into a program or a process. Measures of service efforts also include ratios that compare financial resources with other measures that may indicate potential demand for services, such as the number of potential service recipients. (paragraph 201)

Financial information includes financial measures of resources used. They include the cost of salaries, employee benefits, materials and supplies, contract services, equipment, etc., used in providing a service.
(paragraph 202)

Nonfinancial information includes number of personnel and other measures. Because personnel are a major resource for many federal agencies and programs, indicators that measure the number of full-time equivalent employees or employee-hours used in providing a service often provide a significant measure of resources used. Other measures may include the amount of equipment (such as number of vehicles) or other capital assets used in providing a service. Because some federal programs use large amounts of capital assets, measures of the use of such assets can be important indicators of resources used. (paragraph 203)

Measures of Accomplishments

Measures of accomplishments report what was provided and achieved with the resources used. There are two types of measures of accomplishments (paragraph 204):

(1) **Outputs** measure the quantity of services provided.

(2) **Outcomes** measure the results of providing those outputs.

For some kinds of programs, financial information can provide measures of accomplishments. For example, for some government business-type activities, just as for profit-seeking businesses, the revenue earned can be used as an indicator of accomplishments. In most government programs, however, the important indicators of accomplishments are based on nonfinancial information, as discussed below. (paragraph 204)

Output indicators measure (1) the physical quantity of a service provided or (2) the physical quantity of a service provided that meets a specified quality criterion or criteria. (Note that quality requirements can also be defined and measured for inputs.) (paragraph 205)

Outcome indicators measure accomplishments or results that occur (at least partially) because of the service provided by the government program. (paragraph 206)

SFFAC No. 1 notes that some authorities use terms like **impact**, **effect**, or **results** to distinguish a change in outcomes specifically caused by a government activity from the total change in outcomes caused by the government activity plus other factors. Although it is not always feasible, in theory, performance evaluation should focus on results or effects in the sense of impacts; i.e., on the differences between what would have happened with and without the government program. Indicators of results can also include measures of public perceptions of outcomes.
(paragraph 206)

Outcome measures are particularly useful when presented as comparisons with measures for previous years, established targets, goals and objectives, generally accepted norms and standards (in the sense of "targets"), other parts of the reporting entity, or other comparable entities. (paragraph 207)

Sometimes, the secondary and/or unintended effects of a service on the service recipients, community, or nation can be identified and may warrant reporting. (paragraph 208)

Measures That Relate Efforts to Accomplishments

For profit-seeking entities and for some business-type government programs, the amount of net income can be thought of as a single indicator that relates organizational efforts to accomplishments. For most government activities, however, relating efforts to accomplishments in a meaningful manner is more complex. Financial or cost information is an important component of measures that attempt to relate efforts to accomplishments. (paragraph 209)

Efficiency measures relate efforts to outputs of services. These indicators measure the financial resources used or the cost (in dollars, employee-hours, or equipment) per unit of output. They provide information about the production of an output at a given level of resource use and demonstrate an entity's relative efficiency when compared with measures for previous results, established goals and objectives, generally accepted norms or targets, or results achieved by similar entities. (paragraph 209)

Effectiveness or cost-outcome measures relate efforts to the outcomes or results of services. These measures report the cost per unit of outcome or result. They relate costs and results to help managers, executives, Congress, and citizens assess the value of the services provided by an entity. (paragraph 209)

Limitations of Performance Measurement

Performance measurement is an essential part of good management, and performance reporting is an essential part of government accountability. Important limitations and difficulties associated with performance measurement and reporting should be noted. For example, performance usually cannot be fully described by a single measure; indicators of service efforts and accomplishments do not, by themselves, indicate why performance is at the level reported; and reporting quantifiable indicators can sometimes have unintended consequences. (paragraph 211)

For these and other reasons, the three categories of performance measures generally need to be accompanied by suitable explanatory information. Indeed, narrative information is an essential part of reporting on performance. Explanatory information includes both quantitative and narrative information to help report users understand reported measures, assess the reporting entity's performance, and evaluate the significance of underlying factors that may have affected the reported performance. (This applies whether the reporting entity is the Federal government as a whole or any of its component reporting entities.) (paragraph 212)

Explanatory information can include, for example, information about factors substantially outside the entity's control, as well as information about factors over which the entity has significant control. (paragraph 212)

Appendix I: Key Features of FASAB Statement of Federal Financial Accounting Concepts No. 2, *Entity and Display* (June 5, 1995)

The purpose of SFFAC No. 2 is to provide guidance about what kinds of Federal entities should prepare financial reports and what should be encompassed in the reports. It addresses the objectives of financial reporting stated in SFFAC No. 1; i.e., (1) budgetary integrity, (2) operating performance, (3) stewardship, and (4) systems and control. (SFFAC No. 2, paragraphs 2 to 6) For more detail, see Appendix D above.

Financial Reporting for a Federal Agency

To meet the four objectives of Federal financial reporting in the most efficient manner, a financial report should include (1) management discussion and analysis; (2) balance sheet; (3) statement of net costs;
(4) statement of changes in net position; (5) statement of custodial activities, when appropriate; (6) statement of budgetary resources;
(7) statement of **program performance measures**; (8) accompanying footnotes;
(9) required supplemental information pertaining to physical, **human, and research and development capital** and selected claims on future resources, when appropriate; and (10) other supplemental financial and management information, when appropriate. (paragraph 74)

SFFAC No. 2 notes that the statement of program performance measures is not a basic financial statement. Nevertheless, it is an important component of the financial reports. (paragraph 13)

It may be necessary or appropriate to provide separate statements for separate components of an agency, especially for large agencies composed of many units, as well as the consolidated statement for the agency as a whole. (paragraph 75)

Financial Reporting for the Entire Federal Government

Readers of the financial statements for the entire Federal government are likely to be concerned primarily with whether the government has been a proper steward. The following information should be provided:
(1) management discussion and analysis; (2) balance sheet; (3) statement of operations or net costs; (4) statement of **program performance measures**;
(5) accompanying footnotes; (6) required supplemental information pertaining to physical, **human, and research and development capital** and selected claims on future resources; and (7) other supplemental financial and management information, when appropriate; as well as (8) other information of interest, for example, on cross-cutting presidential initiatives, comparisons

with budgeted amounts, or about selected components of the Federal government. (paragraph 79)

Performance Measures

The statement of program performance measures should include measures for each of the major programs operated by the reporting entity. The preferred types of measures are (1) **output** measures, i.e., the quantity of a service or product provided or the percentage of the target group provided the service or product (ideally, the quantity or percentage that meets a certain quality requirement); and (2) **outcome** measures, i.e., the accomplishments or results that occurred because of the services or outcomes provided. Outcome measures could address either the ultimate program outcome or intermediate outcomes; e.g., accuracy of, timeliness of, or satisfaction with the services provided. (paragraph 106)

Workload, process, and input measures should be in the minority. Explanatory information that helps the readers understand the reported measures, assess the entity's performance, and evaluate the significance of underlying factors that may have affected the reported performance is appropriate. Comparative measures from prior years or similar programs and industry standards are also appropriate. They help to provide a better understanding of the level of the reporting entity's performance. (paragraph 106)

SFFAC No. 2 notes that the acceptance of a statement of program performance will increase in relation to the users' perception of the relevance and reliability of the reported information. These perceptions can be enhanced to the extent there are independent assessments of the appropriateness of the measures, the completeness of the data, the actual occurrence of the reported events, and the values assigned to the data. **Auditors** of Federal agency financial statements are required by OMB to evaluate the underlying control structure for program performance measures included with financial statements. (note 20)

The measures selected for reporting should relate to the programs' purposes and goals. It would be particularly useful to include measures previously included in budget documents and other materials released to the public. It would also be useful to base the selection of measures on discussions with budget examiners, Congressional staffs, and other users of the entity's financial statements. (paragraph 107)

The statement of program performance measures should not be cluttered with trivial measures. Measures selected should be considered important by decision makers and particularly the resource providers that are likely to use the financial statements. Also, relevant measures should be reported, without regard to whether they portray positive or negative performance. The most significant measures should be extracted for highlighting in the management discussion and analysis. (paragraph 108)

Other characteristics to consider for reporting program performance measures are (paragraph 109):

(1) **Completeness**. The measures, in the aggregate, should cover all aspects of the reporting entity's mission.

(2) **Legitimacy**. The measures should be accepted as relevant both inside the reporting entity and by the external stakeholders and others; e.g., the central management agencies, Congress, interest groups, and the public.

(3) **Understandability**. The measures should communicate the performance of the entity in a readily understandable manner to any reasonably informed and interested party.

(4) **Comparability**. The measures should provide a frame of reference for assessing, and comparing, if appropriate, the performance of the entity and entities with similar programs for both the immediate period and over time.

(5) **Ability to relate to cost**. The measures should be such that a cost can be defined for each unit of output, outcome, input, etc.

(6) **Timeliness**. The measures should be available to users of the financial statements before they lose their capacity to be of value in assessing accountability and making decisions. The value of timeliness should not preclude the use of important measures for which results are not immediately available.

(7) **Consistency**. The measures should be reported consistently from period to period to allow users to have a basis for comparison and to gain an understanding of the measures being used and their meaning (recognizing that the measures should be reviewed regularly and modifications made to reflect changing circumstances).

(8) **Reliability**. The information should be derived from systems that produce controlled and verifiable data, although at times it may be necessary to rely on secondary sources of data.

For Federal programs with counterparts at the state and local level, it would be appropriate to consider the measures used by state and local governments. (paragraph 110)

Numerical measures are not the only way to report program performance. In some instances, it may be more meaningful and practicable to report performance with **other than numerical measures**. (paragraph 111)

For an agency report, the statement of program performance measures and outputs and outcomes should be for the agency itself and its programs; e.g., clients vaccinated, illnesses prevented. For a government-wide report, broader measures of outcomes and impacts that reflect the joint efforts of several agencies would be appropriate; e.g., state of the economy, national security, environment, personal health, social welfare. Some narrower outcome measures might also be included. (paragraph 67)

Appendix J: Key Features of FASAB Statement of Federal Financial Accounting Standards No. 8, *Supplementary Stewardship Reporting* (May 1996)

SFFAS No. 8 will apply to agency financial statements for fiscal years beginning after September 30, 1997.

The purpose of SFFAS No. 8 is to establish standards for reporting on the Federal government's (1) stewardship property, plant, and equipment, (2) stewardship investments, and (3) certain responsibilities assumed by the Federal government. These resources, investments, and responsibilities do not fall within the criteria for assets and liabilities to be reported in an agency's principal financial statements. But they are important to understanding the overall operations and financial condition of the Federal government; so, they are included in a separate section of the financial report as supplementary stewardship reporting. (paragraphs a, 12)

Stewardship investments are substantial investments made by the Federal government for the benefit of the nation. They include investments in human capital and in research and development (R&D).
(paragraphs c, g, 12)

Stewardship Investments in Human Capital (chapter 7)

Stewardship investments in human capital are expenses for education and training programs that are intended to increase or maintain national economic productive capacity. Continued categorization of education and training program expenses as investments for stewardship purposes is predicated on demonstrated outputs and outcomes consistent with program intent.

Investment in human capital is defined as expenses incurred for programs for education and training of the public that are intended to maintain or increase national productive capacity and that produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity. The definition excludes education and training expenses for Federal civilian and military personnel. It also excludes education and training expenses whose purpose is not to maintain or enhance national productive capacity.

Stewardship Investments in R&D (chapter 7)

Stewardship investments in R&D are expenses for R&D programs that are intended to increase or maintain national economic productive capacity or yield other future benefits. Continued categorization of R&D program expenses as investment for stewardship purposes is predicated on output and outcome data consistent with program intent.

Investment in R&D is defined as expenses incurred to support the search for new or refined knowledge and ideas and for the application or use of such knowledge and ideas for the development of new or improved products and processes, with the expectation of maintaining or increasing national economic productive capacity or yielding other future benefits. As in OMB Circular A-11, R&D is partitioned into the following three categories:

> (1) Basic research, defined as systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications toward processes or products in mind.
>
> (2) Applied research, defined as systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met.
>
> (3) Development, defined as systematic use of the knowledge and understanding gained from research for the production of useful materials, devices, systems, or methods, including the design and development of prototypes and processes.

Supplementary Stewardship Reporting (chapters 7, 8)

When incurred, stewardship investments are treated as expenses in the principal financial statements.

In addition, the supplementary stewardship information should ordinarily include data in nominal dollars on investment for the year being reported and the preceding four years. Additional years' data may also be reported if such data would provide a better indication of the investment.

Within three years from publication of SFFAS No. 8, program managers should be able to provide information on the outcomes for their stewardship investment programs. If outcome data are not available (for example, the agency has not agreed on outcome measures for the program, the agency is unable to collect reliable outcome data, or the expected outcomes will not occur for several years), output data that best provide indications of the intended program outcomes should be used to justify continued classification of the program as a stewardship investment until outcome data are available.

The outputs and outcomes in the supplementary stewardship report should be the same as those in GPRA and budget documents.

A narrative description of major education and training programs considered Federal investments in human capital and of major R&D programs should be included in the supplementary stewardship report.

Reporting Output (chapters 7, 8)

SFFAS No. 8 defines output as a tabulation, calculation, or recording of activity or effort that can be expressed in a quantitative or qualitative manner. Outputs should have two key characteristics: (1) they should be systematically or periodically captured through an accounting or management information system, and (2) there should be a logical connection between the reported measures and the program's purpose.

Examples of **human capital** output are high school and college graduates as a percentage of the population over age 25.

In **R&D programs**, output data might consist of data for the year concerning the number of new projects initiated, the number continued from the prior year, the number completed and the number terminated. It also might consist of such quantitative measures as bibliometrics (for example, publication counts, citation counts and analysis, and peer evaluation); patent counts and analysis; and science "indicators" that assess the ongoing vitality of the research (for example, statistics on scientific and engineering personnel, graduate students and degree recipients by field and sector).

Reporting Outcomes (chapters 7, 8)

SFFAS No. 8 defines outcome as an assessment of the results of a program compared to its intended purpose.

Outcomes for stewardship investments in **human capital** should: (1) be capable of being described in financial, economic, or quantitative terms and (2) provide a plausible basis for concluding that the program has had or will have its intended effect. Examples of human capital outcomes are program graduates obtaining jobs within two months of program completion or program graduates obtaining jobs making more money than they previously received on Federal aid.

Because of the difficulty of measuring the results of an **R&D** program in comparison to its intended purpose in financial, economic, or quantitative terms, outcome data for such programs are expected to consist typically of a narrative discussion of the major results achieved by the program during the year, along the following lines:

> (1) For basic research, there should be an identification of any major new discoveries that were made during the year.
>
> (2) For applied research, there should be an identification of any major new applications that were developed during the year.

(3) For development, there should be a description of the progress of major developmental projects, including the results with respect to projects completed or otherwise terminated during the year and the status of projects that will continue.

The information presented for **R&D** outcomes should provide a concise plausible basis for judging the extent to which the program is achieving its purpose.

Minimum Reporting (chapters 7, 8)

The minimum reporting required for stewardship investments in **human capital** is the annual investment made for the current year and the four preceding years and a description of the major education and training programs considered to be Federal stewardship investments.

The minimum reporting required for stewardship investments in **R&D** is the annual investment made for the current year and the four preceding years and a description of major R&D programs.

Appendix K: Key Features of OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements* (October 16, 1996)

Only some provisions of Bulletin 97-01 must be applied to agency financial statements for FY 1996 and FY 1997. All provisions must be applied for FY 1998. (page 2)

Bulletin 97-01 incorporates all FASAB concepts and standards that have been previously published. (page 1)

Bulletin 97-01 does not address requirements for the consolidated financial statements of the Federal government. (page 1)

Annual Financial Statement (pages 4 to 5 and 11)

Bulletin 97-01 says that an organization's "Annual Financial Statement" should be composed of

> (1) A brief narrative overview of the reporting entity that provides a clear and concise description of the reporting entity and its mission, activities, performance goals, **program results**, financial results, financial condition, and limitations of the principal financial statements that follow in the next section.
>
> (2) Principal financial statements, including a balance sheet, statement of net costs, statement of changes in net position, statement of budgetary resources, statement of financing, statement of custodial activity, and related notes.
>
> (3) Required supplemental stewardship information
>
> (4) Required supplemental information.
>
> (5) Other accompanying information judged by management to help provide a better understanding of the entity's programs and the extent to which they are achieving their intended objectives.

Consistency with Budget and GPRA Documents (page 11)

The statement of goals and performance measures should be consistent with strategic plans, performance plans, and performance reports prepared for budget or GPRA documents; and the performance measures should be linked to the programs featured in the agency's "Statement of Net Cost."

Program and Financial Results (pages 11 to 13)

The program and financial results should be expressed in terms of **objective, relevant measures** that disclose the extent to which the agency's programs are achieving their intended objectives.

For **performance measures** to be useful, they should be clearly set forth, be objective and quantifiable, be meaningful and relevant, relate to measures developed in the entity's strategic planning processes, and present the outputs and outcomes of the program, not just the inputs or processes of the program.

The presentation of the measures should include both positive and negative results; present historical and future trends, if possible; be illustrated with charts and graphs, whenever possible, for easy identification of trends;
explain the significance of the trends; provide comparison of actual results to goals or benchmarks; show variations from goals and plans; and provide other explanatory information that would help readers understand the significance of the measures, the results, and any variations from goals or plans.

To further enhance the usefulness of the information, agencies should include an explanation of what needs to be done and what is planned to be done to improve financial or program performance.

Agencies should strive to develop and report objective performance measures that, to the extent possible, provide information about the cost- effectiveness of programs. Measuring costs is an integral part of measuring the efficiency and effectiveness of programs. **Efficiency** is measured by relating outputs (the quantity of services provided) to inputs (the costs incurred to provide the services). **Effectiveness** is measured by the outcome or the degree to which a predetermined objective is met, and it is commonly combined with cost information to show **cost-effectiveness**.

The measures presented in the overview should be limited to the most significant program and financial measures. Additional measures should be presented as "Other Accompanying Information." Management has broad discretion in the manner in which performance information is displayed.

Management's display of performance information should include explanatory information to help readers understand the significance of the measures, the results, and any deviations from goals or plans.

Required Supplementary Stewardship Information—Investments in R&D and in Human Capital (pages 76-77)

The stewardship objective of Federal financial reporting requires reporting on the Federal government's accountability over certain resources entrusted to it and certain responsibilities assumed by it that cannot be measured in traditional financial reports. Bulletin 97-01 defines three major reporting categories: (1) stewardship physical plant and equipment, (2) stewardship investments, and (3) stewardship responsibilities.

Investments in human capital and in R&D are included in stewardship investments. Stewardship investments are substantial investments made by the Federal government for the benefit of the nation. When incurred, they are treated as expenses in determining the net cost of operations. However, they merit special treatment so that readers of Federal financial reports know the extent of investments that are made for long-term benefit.

Bulletin 97-01 defines stewardship investments in **human capital** as education and training programs that are intended to increase or maintain national economic productive capacity and that produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity. The definition excludes education and training expenses for Federal civilian and military personnel.

Bulletin 97-01 defines stewardship investments in **R&D** as programs that support the search for new or refined knowledge and ideas and for the application or use of such knowledge and ideas for the development of new or improved products and processes with the expectation of maintaining or increasing national economic productive capacity or yielding other future benefits.

Continued categorization of a human capital or R&D program as a stewardship investment is predicated on demonstrated outputs and outcomes consistent with the intent of the program. The FASAB Statement of Federal Financial Accounting Standards (SFFAS) No.8, *Supplementary Stewardship Reporting*, describes the criteria that must be met for expenses to continue to be categorized as stewardship investments. Key features of SFFAS No. 8 are summarized in Appendix F above.

Outcome and **output** measures that are used to justify continued treatment of expenses as stewardship investments should be clearly identified in the agency's financial statement, and the relationship of the outcomes and outputs to the stewardship investments should be readily apparent.

The **minimum reporting** required for stewardship investments in **human capital** is the annual investment made for the current year and the four preceding years and a description of the major education and training programs considered to be Federal stewardship investments.

The **minimum reporting** required for stewardship investments in **R&D** is the annual investment made for the current year and the four preceding years and a description of major R&D programs.